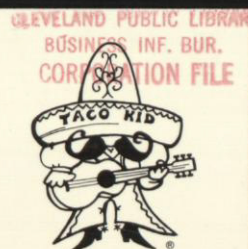


PIZZA HUT®, INC. ANNUAL REPORT 1970



HIGHLIGHTS

	1970	1969
Total Revenue	\$24,728,194	\$14,695,851
Net Income	\$ 1,041,851	\$ 931,333
Per Share Income	\$.42	\$.42
Weighted average number of Common Shares outstanding ..	\$ 2,497,306	\$ 2,193,747
Working Capital	\$ (100,826)	\$ 4,333,983
Total Assets	\$14,472,953	\$11,714,124
Stockholders' Equity ...	\$ 8,211,552	\$ 7,151,079

Amounts for 1969 have been restated to reflect the change in accounting for initial franchise fee income and to include businesses acquired during 1970 accounted for on a pooling of interest basis.

PIZZA HUT, INC. ANNUAL REPORT 1970

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ON THE COVER: More than 500 PIZZA HUTS in the U.S., Mexico, Canada, Australia and West Germany serve an unlimited variety of taste-tempting pizza. The new NEXT DOOR restaurants feature high-quality, quarter-pound hamburgers in a setting of red, white and blue. Tacos and many other Mexican food items are on the menu at both the TACO KID "eat-in or carry-out" units and Fiesta Cantina restaurants. The FLAMING STEER Steak House provides full service and elegant surroundings, in addition to a menu of steaks, seafood and chicken.

The Annual Meeting of Stockholders will be on Tuesday, August 4, 1970, at 9:30 a.m. at the Radisson Hotel in downtown Wichita.

TRANSFER AGENTS: First National City Bank, New York City, and First National Bank in Wichita.

REGISTRARS: Franklin National Bank, New York City, and First National Bank in Wichita.

AUDITORS: Ernst & Ernst.

REPORT TO THE STOCKHOLDERS:

This has been a critical year for the fast food industry in general and your company in particular. Being a relatively new industry, the franchised food field was not well enough organized to meet the many challenges it faced in 1969 and early 1970 — nor was it properly regulated. As a consequence, the mortality rate was unusually high. While some companies — Pizza Hut, Inc. among them — survived and grew, others withered and far too many proved to be nothing more than promoters' dreams. The overall image of the industry was badly tarnished the past 12 months.

As for your company, the problems of organizing the 129 corporations that were consolidated in 1968 prior to going public in early 1969 presented unforeseen operational difficulties. Still, during the year we became the world's largest pizza specialty chain, completed an acquisition program in the equipment and supply fields, acquired the Taco Kid and Taco Boy chains, the Next Door and Flaming Steer concepts, as well as additional Pizza Huts, and showed growth in all divisions.

Based on a revised method of reporting franchisee-fee income — where initial fees are recognized as revenue only after retail units are open for business — our total restated net income for fiscal 1970, ended March 31, 1970, reached \$1,041,851. This compares with a restated net income, based on the new accounting method, for fiscal 1969 of \$931,333.

We are pleased to join other leaders in the franchise field in establishing and maintaining these new accounting guidelines. We feel this system will make it considerably easier for stockholders and the public alike to more accurately appraise our profitability and future growth. Under the system, \$1,043,625 of non-refundable initial fees will be reported in future fiscal periods

— representing significant future income.

Total net sales for the fiscal year were \$23,013,509, up from \$13,932,809 for the previous year as restated. Net per share income was 42 cents, based on 2,497,306 average shares outstanding. This compares with fiscal 1969's restated per share income of 42 cents on the 2,193,747 average shares outstanding during that fiscal period.

Although we were disappointed in the fact that per share earnings were level in our first full year as a public company, we were able to increase net income 11.9 per cent. Our accelerated expansion program depressed earnings somewhat but the implementation of a tighter system of management controls during the second half of the fiscal year shows promise. Continued control of corporate overhead will be a principal management goal in fiscal 1971.

As for growth, 523 Pizza Huts were open and doing business at the end of the 1970 fiscal year. Of this number, 227 were company-owned while 296 were owned and operated by franchisees. In addition, 44 company Huts were under construction or in various stages of leasing, as were 61 franchise units. A total of 332 company-owned or franchised Pizza Huts were operating at the end of fiscal 1969.

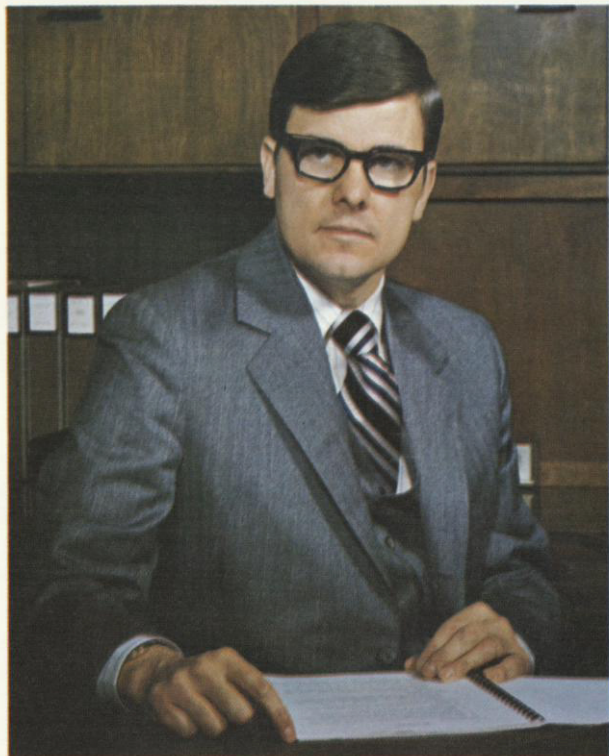
The Next Door Division is proving to be highly profitable. Our prototype in Wichita made considerable news in the trade press during the fourth quarter by continually posting high daily gross volumes. It is in this unit that managers are now being trained to staff the 15 Next Doors presently under construction or in the leasing stages.

Our newest division — The Flaming Steer — became a part of the corporate family during the fourth quarter. One of these specialty char-broiled steak restaurants is in operation in Wichita on a very profitable basis and another is under development in Topeka, Kansas.

The corporate area presenting the most challenge to your management is the Taco Kid Division — the only one of the four food divisions not yet showing profit. Thirty-four units were

opened or acquired during the fiscal year. To stimulate volume, we have made certain product changes, experimented with a buffet-style format in selected units, and, more importantly, placed the division under the able direction of James Aboud. Improvement has been noted, but this division will continue to be an area of management concern in the coming fiscal year.

As a means of further cutting costs, we acquired J & G Foods, Inc. and Franchise Services, Inc., both of Wichita, and consolidated them into one company — Franchise Services, Inc. (FSI). This gives us the capability of offering company-owned units and franchisees the equipment and supplies they need at competitive prices, while opening another avenue of profit for the corporation. Recently, FSI started its own delivery system, serving all company Huts in Oklahoma and Kansas, as well as parts of Texas and Mid-Missouri — further reducing warehouse costs and general overhead. We plan to expand this successful program further during fiscal 1971.



As a means of boosting luncheon business in Pizza Huts, sale of fresh green salads and Italian sandwiches was approved during the fiscal year. The volume increase was most satisfactory. Our special Pizza Hut salad dressing — produced only in the Midwest — and our grated Parmesan cheese met with such customer approval that they are now being packaged and offered over-the-counter in a variety of markets.

Our food testing program, under the guidance of Dr. M. Hal Taylor, is presently gauging customer reaction to spaghetti in the Wichita, Winnipeg and Los Angeles markets. Dr. Taylor and his staff are also testing ovens which significantly reduce the cooking time of a pizza pie. After final results these ovens will be installed in all new units and conversions will be made in existing Huts. The marketing implications of these reduced cooking time tests has all of us excited.

This letter was written to you in our new corporate headquarters in East Wichita. Now, all food divisions, management departments, the test kitchen and the electronic data processing center are under one roof — meaning even more efficiencies can be implemented.

Our overseas activities are on target and two Pizza Huts are now open in Australia and West Germany. Eleven franchised units were in operation in Mexico and Canada at the end of fiscal 1970. Consumer acceptance of pizza in foreign markets has lived up to our projections and international expansion will be very much a part of future corporate growth.

We survived and grew during the most trying year of the fast food era. We now have a better base for expansion than ever before and we are more competitive than at any time in our corporate history. We think you will be pleased with company performance in fiscal 1971.

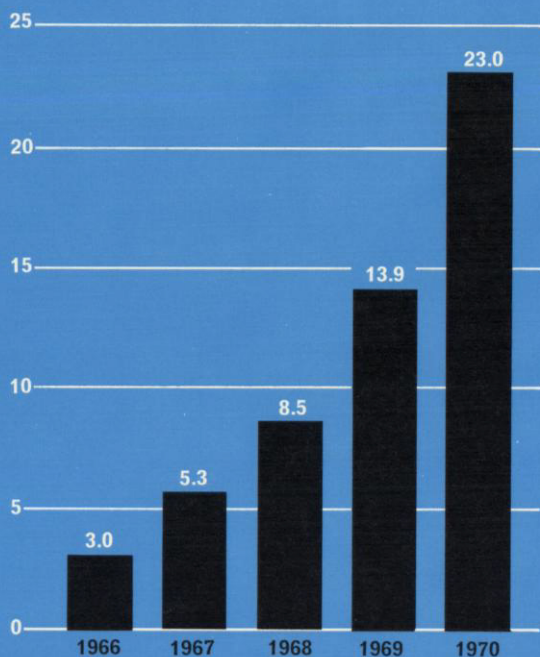
Respectfully,

Frank L. Carney,
President

CORPORATE GROWTH TRENDS

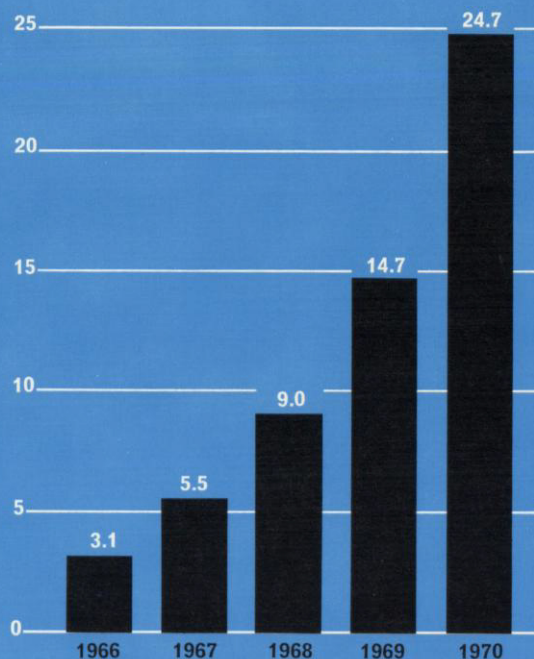
Retail Sales

(Millions of Dollars)



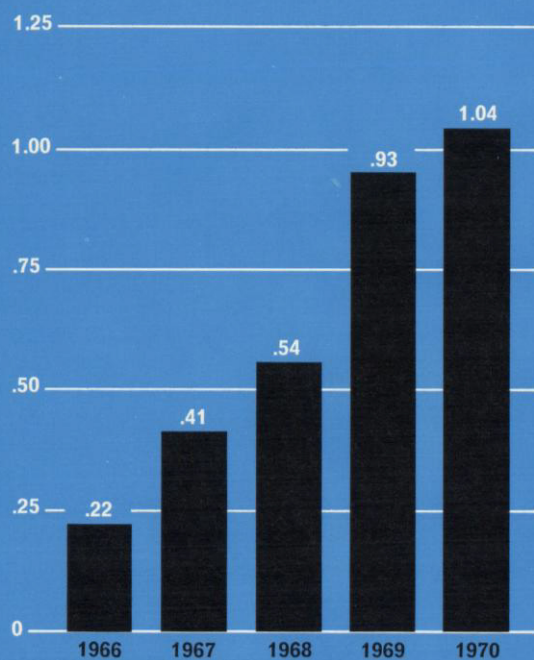
Total Revenue

(Millions of Dollars)



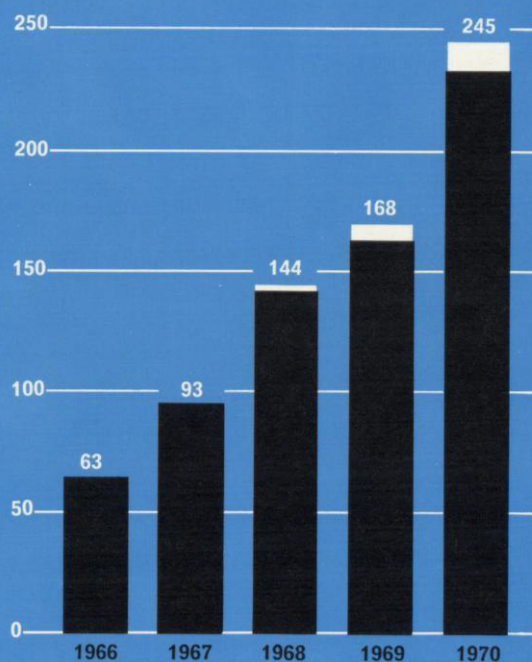
Net Income

(Millions of Dollars)



Number of Company-Owned Stores

Pizza Huts ■ Other Stores □



Pizza Hut, Inc. became the world's largest pizza specialty chain — both in pizza volume and number of outlets — during the 1970 Fiscal Year.



Pizza Hut's unique peaked roof brings instant recognition of an outlet.



Red brick walls, early American style captain's chair and red checkered table cloths typify Pizza Hut interiors.



A warm and pleasant atmosphere sets the scene for family dining in Pizza Huts throughout the world.

The popular Italian submarine sandwich was introduced to the Pizza Hut menu in fiscal '70.



The new, ultra-modern corporate headquarters building is on a 23-acre site in East Wichita.

PIZZA HUT

Milestone after milestone describes the 1970 fiscal year for the Pizza Hut Division.

During the first half, the corporation became the largest pizza specialty chain in the world, both in number of outlets and volume of pizza sold. As of March 31, 1970, the end of the fiscal year, 523 Pizza Huts were in operation — 227 of them company-owned and 296 franchised. They are located in 42 states, Mexico and Canada. At the end of the previous fiscal year there were 332 Huts open for business.

Plans for international expansion were announced in July 1969, with the first development to be in Australia. An initial five or six Huts are planned in the Sydney metropolitan area. Further foreign expansion plans were indicated the following month with the announcement that three European Pizza Huts would be constructed in Munich, West Germany.

August was a big month for Pizza Hut. Plans were revealed

for a new ultra-modern corporate home office on 23-acre grounds. Operational requirements, both for the present and future, were prime considerations in the design of the new building. Construction of the weathering steel and smoked glass structure was completed shortly after the end of fiscal year 1970 and the new, 35,000-square-foot building became headquarters 45 days into the new year.

The '70 fiscal year saw the introduction of fresh green salads to the Pizza Hut menu and, a short time later, the popular Italian submarine sandwich — served hot or cold. The addition of the two items is expected to improve the luncheon business in Pizza Huts across the nation.

The third quarter opened with a program designed to increase franchise interest among minority groups. "We are in sympathy with government programs in this area," Frank L. Carney, PHI President, said, "but we feel the Office of Minority Business Enterprise

and other agencies cannot move fast enough for meaningful near-term results." The first Pizza Hut developed under the plan was in Atlanta, Georgia.

A milestone in the fourth quarter was accomplished by the International Pizza Hut Franchise Holders Association — final arrangements were made and announced for national promotion of Pizza Hut pizza in LOOK and LIFE magazines and on television's leading late-night program, The Tonight Show. IPHFHA believes the promotion to be a significant beginning in building a national image of the Pizza Hut.

March, the final month of the fiscal year, brought the attainment of a goal many fast-food companies never reach, especially during the past year's now famous franchise "shake-out" period. The 500th Pizza Hut opened in Nashville, Tennessee. The franchised Hut is owned and operated by United Fast Foods, Inc., and Nashville welcomed Number 500 with several days of festivities.

NEXT DOOR

The Next Door restaurant — with a red, white and blue Revolutionary War decor — features a variety of high-quality, quarter-pound hamburgers.

By the end of fiscal 1970, the prototype unit was in operation in East Wichita and a second company-owned outlet was near operational status in the western part of the city. Five other Next Door units were under construction or development by PHI on March 31, 1970, with an additional one under construction or development by a franchisee.

Besides Wichita, Next Door outlets will be in Atlanta, Georgia; Culver City, California; Des Moines, Iowa; Jacksonville, and Ft. Lauderdale, Florida; Louisville, Kentucky; Kansas City, Kansas, and Fort Worth, Texas.

The Next Door concept —

designed by three Oklahoma City men — was acquired during the first quarter of the fiscal period with the trio receiving a percentage of initial fees and royalty fees on franchises.

In addition to offering a variety of All-American hamburgers, the Next Door serves steaks, spaghetti and shrimp dinners, chili, and other sandwiches, all in the medium price range.

One reason for Next Door's immediate success, according to Daniel M. Carney, PHI Chairman of the Board, is "the current trend in the hamburger business to fill a void left by the rapid growth of the 19- and 20-cent outlets."

The colorful Americana interior features wooden soldiers watching over the diners. Walls are paneled in dark pecan and accented by distinctive

Revolutionary War era wall hangings and colorful cut glass light fixtures.

Red patent leather-like booths and tables are equipped with red individual telephones for ordering. Some booths are even roomy enough for a family of six to dine in comfort. Food is served from a central counter. Carpeting in the initial unit is bright blue with flecks of red to add to the warm, inviting atmosphere which appeals to diners of all ages.

The colonial exterior of white heydite walls is highlighted with a brilliant red roof. The front doors, also red, feature leaded glass windows in bright colors. Wooden soldiers stand guard outdoors with the Next Door sign featuring a giant-sized toy soldier.

The 40-foot by 90-foot restaurant seats 180 persons.



The Next Door Special is a quarter pound of ground chuck on a sesame seed bun, Suzy-Q style French fries and a fresh green tossed salad.



A brilliant red roof tops the colonial-style, white-walled Next Door restaurant and the red front doors feature leaded glass windows in red, white and blue.

"Americana" describes the Next Door interior with red patent leather-like booths, bright blue carpeting with flecks of red, dark pecan paneling and distinctive Revolutionary War era wall hangings. Orders are placed by individual red telephones and food is served from a central counter.





A striking Spanish-Mediterranean interior decor features red brick and rough cedar walls and dividers. A combination of table arrangements and booths of black leather-like material seat 150 persons in the main area.



Wall hangings with an Old World flavor surround the large room. Complete hostess and table service is provided at the steak house.



The blazing open hearth char-broiling area is in full view of the diners.



In addition to a variety of steak dinners, the menu offers seafood, fried chicken, sandwiches and salads.



FLAMING STEER

The newest member of the PHI food family is the Flaming Steer Steak House division, with one unit in operation in Wichita and another under development in Topeka, Kansas.

Char-broiled, USDA-choice, corn-fed steak dinners are the specialty of the Flaming Steer, which utilizes complete hostess and table service. In addition to a wide variety of steaks, the menu offers seafood, fried chicken, sandwiches and salads in the medium price range.

Eighty per cent of the Flaming Steer concept and the initial restaurant were acquired during the last half of the fiscal year, with the remaining

20 per cent retained by developer James J. Aboud of Wichita.

Business has been booming at the Flaming Steer since opening in September, 1969. "The steak house has become a favorite of Wichita's citizenry and has enjoyed capacity business from the very beginning," PHI President Frank L. Carney said in announcing the acquisition.

The six-sided, dark red brick and cedar building style of the pilot unit will be used in future Flaming Steer Steak Houses. The Spanish-Mediterranean interior motif features a cathedral-type beamed ceiling

and a warm, striking decor. Accents include distinctive wall hangings and light fixtures. Roomy, comfortable booths of black leather-like material and table arrangements are adjacent to a large, blazing open hearth char-broiling area.

The Flaming Steer seats 150 persons in the main dining area and also offers a private room which accommodates 60 for parties, banquets and meetings.

Additional company-owned units will be developed during fiscal 1971. There are no immediate plans to offer Flaming Steer franchises.

● PIZZA HUT

(Open or Under Construction on March 31, 1970.)

ALABAMAHuntsville
Mobile
Montgomery
Tuscaloosa**ALASKA**

Anchorage

ARIZONAFlagstaff
Phoenix

Tempe

Tucson

ARKANSAS

El Dorado

Fayetteville

Ft. Smith

Hot Springs

Little Rock

Pine Bluff

CALIFORNIA

Chula Vista

Corona

Covina

El Cajon

Fontana

Fremont

Hawthorne

La Mesa

Lawndale

Los Angeles

Millbrae

Mt. View

National City

Oakland

Ontario

Rialto

Sacramento

San Bernardino

San Carlos

San Diego

San Jose

Santa Clara

Santa Cruz

Sunnyvale

Torrance

Venice

COLORADO

Aurora

Colorado Springs

Denver

Ft. Collins

Golden

Greeley

Lakewood

Longmont

Pueblo

CONNECTICUT

Branford

Groton

Middletown

New London

FLORIDA

Atlantic Beach

Clearwater

Gainesville

Jacksonville

Lake Worth

Orlando

Palatka

Panama City

Pensacola

So. Pasadena

St. Petersburg

Tallahassee

Tampa

Titusville

W. Palm Beach

GEORGIA

Albany

Athens

Atlanta

Augusta

Brunswick

Columbus

Marietta

Macon

Savannah

Smyrna

Valdosta

Warner Robins

IDAHO

Sun Valley

Twin Falls

ILLINOIS

Aurora

Berwyn

Bloomington

Cahokia

Champaign

Chicago

Decatur

DeKalb

East Moline

Galesburg

Hampton Park

Joliet

Lombard

Macomb

Pekin

Peoria

Peru

Quincy

Rantoul

Sterling

Streamwood

Urbana

Villa Park

Waukegan

INDIANA

Anderson

Clarksville

Columbus

Elkhart

Evansville

Hammond

Highland

Kokomo

Lafayette

Marion

Michigan City

Richmond

South Bend

Terre Haute

IOWA

Ames

Atlantic

Bettendorf

Burlington

Clinton

Coralville

Council Bluffs

Davenport

Des Moines

Fairfield

Ft. Dodge

Indianola

Iowa City

Marshalltown

Mason City

Newton

Ottumwa

Waterloo

KANSAS

Atchison

Coffeyville

Colby

Dodge City

El Dorado

Emporia

Great Bend

Hays

Hutchinson

Independence

Junction City

Kansas City

Lawrence

Leavenworth

Liberal

Manhattan

Newton

Olathe

Ottawa

Overland Park

Parsons

Pittsburg

Pratt

Salina

Shawnee

Topeka

Wellington

Wichita

KENTUCKY

Bowling Green

Frankfort

Lexington

Louisville

Middletown

LOUISIANA

Baton Rouge

Gretna

Kenner

Lake Charles

Metairie

New Iberia

New Orleans

Shreveport

MASSACHUSETTS

West Springfield

MICHIGAN

Battle Creek

Flint

Grand Rapids

Jackson

Kalamazoo

Wyoming

MINNESOTA

Columbia Heights

Cottage Grove

Duluth

Falcon Heights

Mankato

Moorhead

Robbinsdale

Rochester

St. Cloud

St. Louis Park

St. Paul

West St. Paul

White Bear Lake

Winona

MISSISSIPPI

Hattiesburg

Jackson

Tupelo

MISSOURI

Chillicothe

Columbia

Florissant

Gladstone

Independence

Jefferson City

Joplin

Kansas City

Kirkville

Lee's Summit

Liberty

Manchester

Marshall

Maryville

Mexico

Raytown

Rolla

St. Charles

St. Joseph

St. Louis

Sedalia

Springfield

Warrensburg

MONTANA

Billings

Great Falls

Helena

NEBRASKA

Bellevue

Columbus

Fremont

Grand Island

Hastings

Kearney

Lincoln

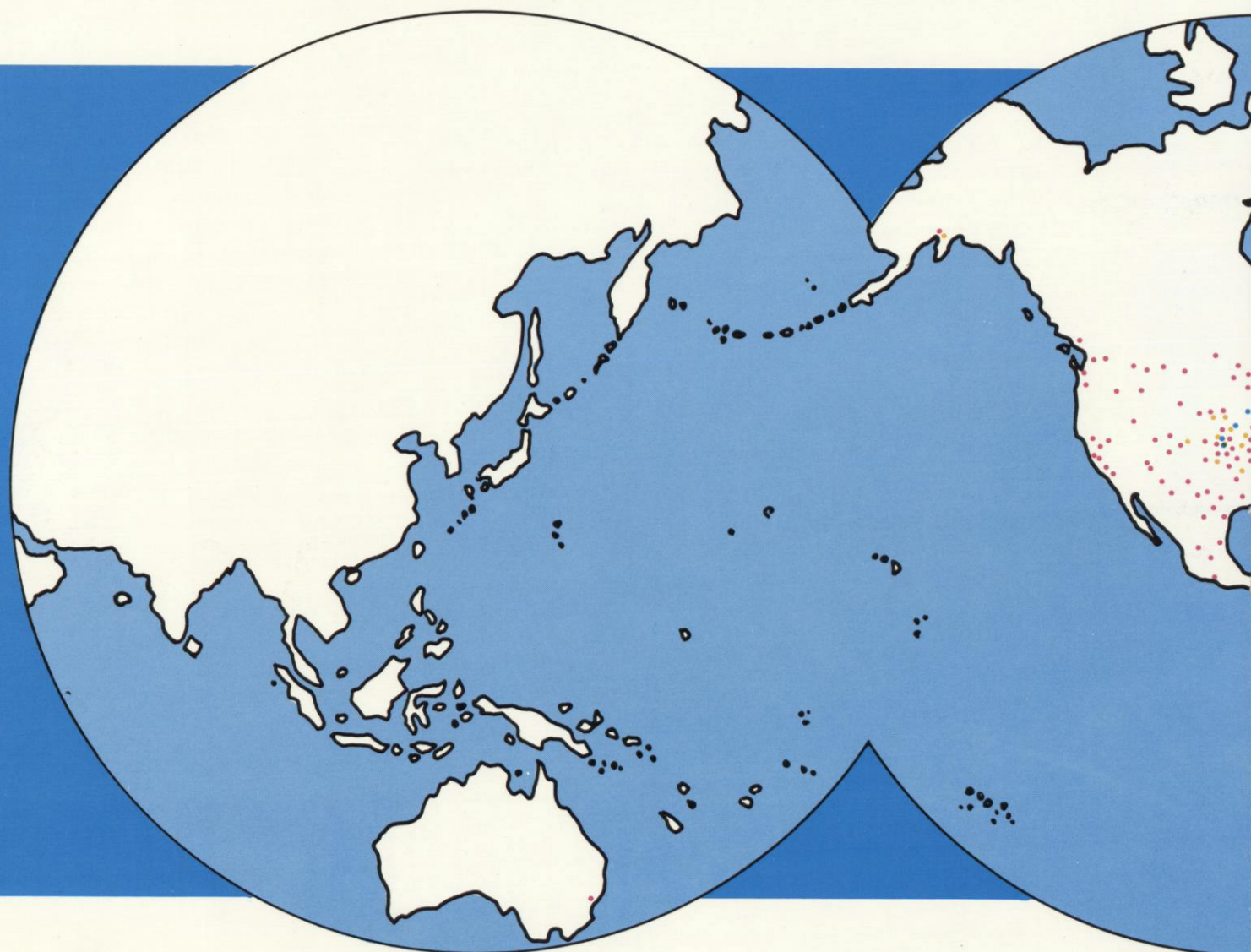
North Platte

Omaha

South Sioux City

NEVADA

Las Vegas



LOCATIONS

NEW HAMPSHIRE

Dover
Manchester
NEW MEXICO
Albuquerque
Clovis
Gallup
Las Cruces
Santa Fe

NEW YORK

Albany
Bellerose, L. I.
Haverstraw
Ithaca
Latham
Rochester
Tonawanda
Westbury, L. I.

NORTH CAROLINA

Burlington
Charlotte
Greensboro
Greenville

NORTH DAKOTA

Fargo
OHIO

Athens
Cincinnati
Columbus
Dayton
Findlay
Gahanna
Hamilton
Kent

Lancaster
Lorain
Milford
Oregon
Sheffield Lake
Toledo
Vermillion
Youngstown

OKLAHOMA

Ada
Ardmore
Altus
Alva
Bartlesville
Chickasha
Duncan
Guymon
Lawton

McAlester

Miami
Moore
Muskogee
Norman

Oklahoma City

Shawnee
Stillwater
Tulsa

Woodward

OREGON

PORTLAND

PENNSYLVANIA

Allentown
Bethlehem
Lancaster

Pittsburgh
Reading
State College
SOUTH CAROLINA

Charleston
Columbia
Greenville
Myrtle Beach
Rock Hill

SOUTH DAKOTA

Sioux Falls

TENNESSEE

Chattanooga
Knoxville
Memphis
Nashville

TEXAS

Abilene
Alice
Amarillo
Arlington
Austin

Beaumont
Bedford
Big Spring
Borger
Bryan

Conroe
Corpus Christi
Dallas
Denton

El Paso
Ft. Worth
Galveston

Garland
Haltom City
Houston
Irving
Kingsville
Longview
Lubbock
Lufkin

MIDLAND

NACOGDOCHES

ODESSA

ORANGE

PAMPA

PORT ARTHUR

SAN ANGELO

SAN ANTONIO

TEMPLE

TYLER

VICTORIA

WACO

WICHITA FALLS

UTAH

GRANGER

MURRAY

OGDEN

PROVO

ST. GEORGE

SALT LAKE CITY

VIRGINIA

BLACKSBURG

COLLINSVILLE

HAMPTON

HARRISONBURG

Manassas
Newport News
Norfolk
Richmond
Roanoke
Staunton
Vienna
Waynesboro

WASHINGTON

ELLENBURG

OLYMPIA

SEATTLE

SPOKANE

WEST VIRGINIA

CHARLESTON

HUNTINGTON

ST. ALBANS

S. CHARLESTON

WISCONSIN

APPLETON

BROOKFIELD

Eau Claire

Fond du Lac

Green Bay

Janesville

La Crosse

Madison

Milwaukee

Neenah

Racine

Sheboygan

Stevens Point

Wausau

Wisconsin Rapids

CANADA

Burnaby, B.C.
Edmonton
Montreal
Richmond, B.C.
Surrey, B.C.
Vancouver
Winnipeg

MEXICO

ACAPULCO

GUADALAJARA

MEXICO CITY

MONTERREY

AUSTRALIA

SYDNEY

GERMANY

MUNICH

NEXT DOOR

(Open or Under Construction on March 31, 1970.)

FLORIDA

Ft. Lauderdale

GEORGIA

ATLANTA

IOWA

Des Moines

KANSAS

Kansas City

Wichita

TACO KID

(Open or Under Construction on March 31, 1970.)

ALASKA

Anchorage

ARKANSAS

Little Rock

COLORADO

Aurora

FLORIDA

Clearwater

Pensacola

St. Petersburg

GEORGIA

Columbus

Marietta

Atlanta

ILLINOIS

Urbana

Galesburg

INDIANA

Evansville

IOWA

Des Moines

Cedar Rapids

KANSAS

Emporia

Kansas City

Junction City

Wichita

KENTUCKY

Louisville

MICHIGAN

Flint

MISSOURI

Springfield

NEBRASKA

Lincoln

Grand Island

NEW YORK

Haverstraw

Rochester

OHIO

Bowling Green

Columbus

Lorain

Toledo

OKLAHOMA

Tulsa

SOUTH CAROLINA

Myrtle Beach

Columbia

VIRGINIA

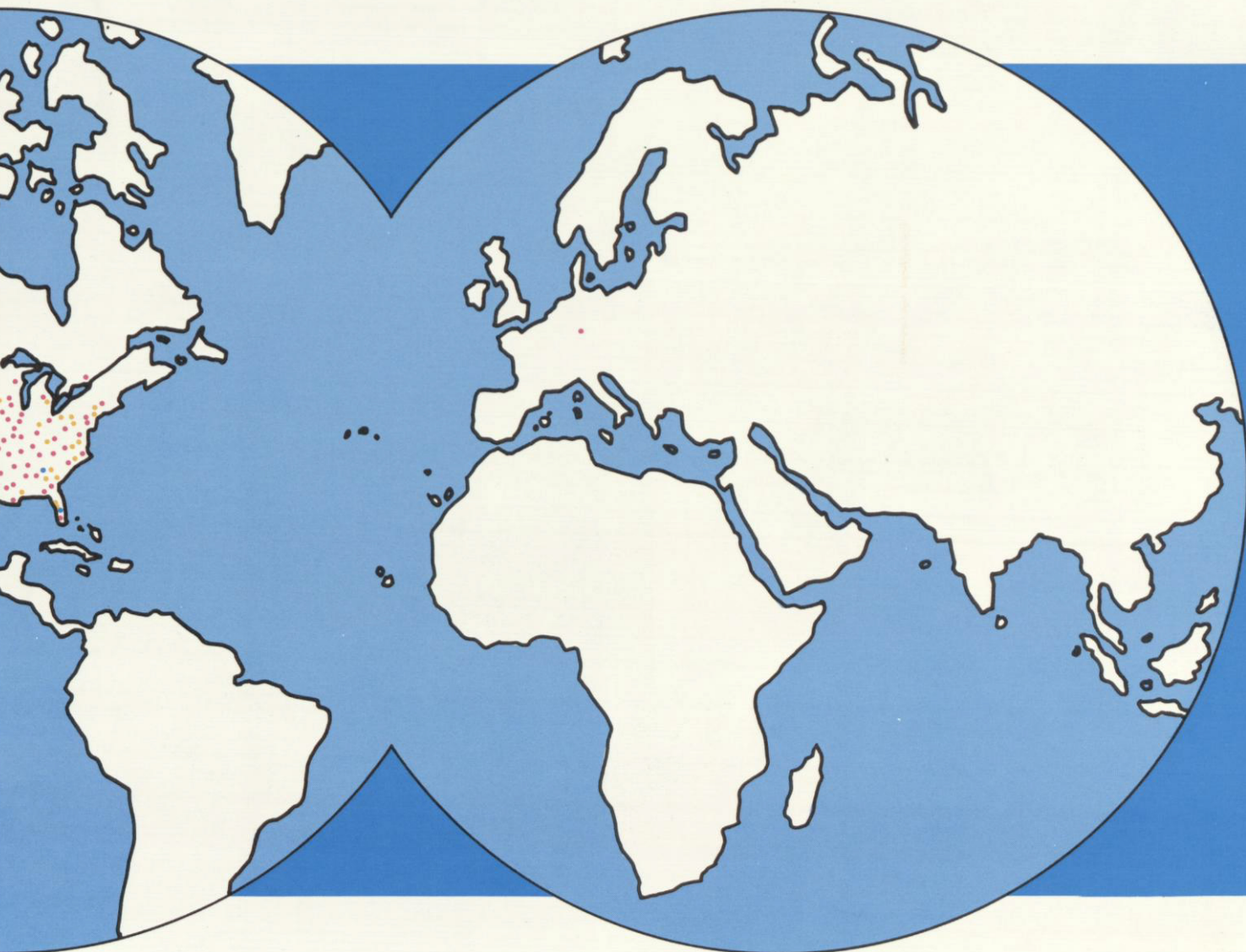
Harrisonburg

Roanoke

FLAMING STEER

KANSAS

Wichita





The large Taco Kid outlet features buffet-style family dining and an extended menu.

A new concept in Mexican fast-food dining, the 40-by-70-foot Taco Kid Fiesta Cantina unit features two dining areas with booths and tables to seat 100 persons.



Taco Kid's 40-by-40-foot "eat-in or carry-out" units serve all the favorites, including tacos, tostadas and burritos.





Fiesta Cantina's "all you can eat" plates include frijoles, tacos, cheese and meat enchiladas, tamales, Mexican rice and tostadas.

Cafeteria-style serving is the "Fiesta Cantina" way.



TACO KID

The Taco Kid Division of PHI was formed early in the 1970 fiscal year with the acquisitions of Taco Boy, Inc., of Toledo, Ohio, and Taco Kid, Inc., of Wichita.

Three of the acquired Taco Boy outlets were in operation in the Toledo area with another six under construction or in leasing stages in other Ohio and Michigan cities. Taco Kid units in operation at the time of acquisition numbered three in Wichita and one in Tulsa, Oklahoma. Another six were under construction or in leasing stages in various parts of the U.S.

Thirty-four company-owned or franchisee-operated Taco Kid outlets were open on March 31, 1970. An additional 33 units, both company and franchisee, were under construction or in leasing stages at the end of fiscal 1970.

Taco Kid, in addition to their regular 40- by 40-foot eat-in, carry-out units, now has a Mexican fast-food restaurant — the Fiesta Cantina — which features buffet-style family dining, and a menu extended to include frijoles, cheese and meat enchiladas, tamales, Mexican rice and chips.

Favorites at the smaller Taco Kid units — tacos, tostadas, burritos and taco burgers — are available at Fiesta Cantinas too.

The experimental Fiesta Cantina concept is presented in a 40- by 70-foot adobe-like structure. The initial buffet outlets, two of them in Wichita, feature a cafeteria-type buffet line and two dining areas with booths and tables to seat 100 persons. The decor in the Fiesta Cantinas, as in all Taco Kid outlets, is strictly Mexican — warm and colorful.



FSI's own transportation system of weekly delivery service to company-owned outlets is expanding from the initial four-state area.



Specialty and paper items for Pizza Hut, Taco Kid, Next Door and the Flaming Steer are ordered from FSI by company-owned and franchised outlets.

Tons of merchandise move from the central warehouse to outlets throughout the nation and the world during the year.



FRANCHISE SERVICES, INC.

Pizza Hut, Inc. began a program of vertical expansion at the beginning of the second quarter of fiscal 1970 with the announcement of plans to acquire two food product and equipment supply companies. J & G Foods, Inc. and Franchise Services, Inc. (FSI) were both Wichita-based subsidiaries of Consolidated American Industries, Inc.

Daniel M. Carney, PHI President at that time and now Chairman of the Board, said in announcing the plans, that "by acquiring food and service equipment firms, increased profits through participating in distribution can be obtained."

Shortly after the acquisition was completed in exchange of PHI common stock, the two firms were merged into Franchise Services, Inc.

Pizza Hut's own Italian salad dressing and grated Parmesan and Romano cheese are among the food supplies available at the FSI warehouse in Wichita.

During the third quarter of the fiscal year, FSI started its own transportation system which initially provided weekly delivery service to more than 50 company-owned Pizza Huts in Kansas, Oklahoma and parts of Texas and Missouri. By the end of fiscal 1971, nearly half of the company-owned and franchised Pizza Hut and other company outlets are expected to be served by the transportation system.

In addition to special kitchen equipment, FSI also supplies Pizza Hut and Taco Kid units with various spice packages and other food products. They are also the distributor of Pizza Hut's new Italian salad dressing and grated cheese package. These items are produced only in the Midwest.



INTERNATIONAL

PHI became an international corporation during its 1970 fiscal year with expansion into the European and Australian fast foods markets.

Pizza Hut Australia Pty. Ltd., a PHI subsidiary, was formed with offices in the Sydney suburb of Pymble, New South Wales. Construction began on the first "down-under" Hut during the second half of the year and the opening in April was the corporation's first major highlight of the 1971 fiscal year.

A free-standing unit like most Pizza Huts in the U.S., Australia's first is located on Punchbowl Road in the Belfield district of Sydney. Four additional Huts are in leasing and construction stages in metropolitan Sydney.

The PHI West German subsidiary is Pizza Hutte, GmbH., with headquarters in Munich, the site of the first European "Pizza Hutte."

Germany's initial unit has been developed in an existing building in Munich's southeast section of Giesing, near most of the American military housing areas. It, too, is now open, with several additional company-owned outlets in the planning stages for Munich and late fall construction slated for the second Hut in the suburban Schwabing district.

The pizza menus of the overseas Huts are much like their American counterparts — Green Pepper in the U.S.A. and Capsicum in Australia, or Champignons and Kase in Germany and Mushrooms and Cheese in the States. Sweets are a new addition on the Australian menu and feature a "Pizza Pete Gingerbread Man."

Pizza Hut franchisees have also gone international with 11 Huts now in operation in Canada and Mexico.



Australia's first Pizza Hut is a free-standing unit of the same design as those in the U.S.



Munich beer vendor for the Pizza Hut there offered opening congratulations with a special visit by their horse-drawn beer wagon.



West Germany's Number One Hut is on the ground floor of a new Munich apartment building in the city's southeast section.

STATEMENT OF CONSOLIDATED INCOME
PIZZA HUT, INC. AND CONSOLIDATED SUBSIDIARIES

	Years Ended March 31		
	1970	1969	As Previously Reported
Net sales	\$23,013,509	\$13,932,809	\$12,787,017
Cost of sales	8,089,492	4,434,844	4,007,606
	14,924,017	9,497,965	8,779,411
Initial franchise fees	505,434	180,903	912,403
Continuing franchise fees	580,371	296,629	306,979
	16,009,822	9,975,497	9,998,793
Selling, general, and administrative expenses	14,481,619	8,328,758	7,680,696
	1,528,203	1,646,739	2,318,097
Other income	628,880	285,510	273,564
	2,157,083	1,932,249	2,591,661
Other deductions	161,732	144,965	116,518
INCOME BEFORE INCOME TAXES	1,995,351	1,787,284	2,475,143
Federal and state income taxes — Note D	953,500	813,914	1,198,887
NET INCOME	1,041,851	973,370	1,276,256
Proforma adjustments		42,037	37,772
Proforma Net Income	\$ 1,041,851	\$ 931,333	\$ 1,238,484
Net income per share of Common Stock (pro- forma in 1969):			
Weighted average shares of Common Stock outstanding	2,497,306	2,193,747	2,075,564
Net income	<u>\$.42</u>	<u>\$.42</u>	<u>\$.60</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
PIZZA HUT, INC. AND CONSOLIDATED SUBSIDIARIES

	March 31, 1969		
	March 31, 1970	Restated — Note A	As Previously Reported
ASSETS			
CURRENT ASSETS			
Cash	\$ 876,005	\$ 2,739,371	\$ 2,664,279
Marketable securities — at cost (approximately market)....		3,363,172	3,363,172
Trade and other receivables less allowance of \$45,000 in 1970	1,740,467	537,001	357,310
Inventories — at lower of cost (first-in, first-out method) or market	952,616	471,292	284,807
Prepaid expenses	291,025	221,526	197,067
TOTAL CURRENT ASSETS	3,860,113	7,332,362	6,866,635
OTHER ASSETS			
Investments in and advances to affiliates and foreign subsidiaries	116,921	33,898	33,898
Miscellaneous deposits and accounts	598,218	335,297	328,083
Notes receivable	331,000		
Cost in excess of net assets of businesses acquired — Note A	421,866		
Patents, service marks, and franchises	113,132	14,246	13,358
	1,581,137	383,441	375,339
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost — Notes B and C			
Land	2,514,550	582,649	527,649
Buildings and improvements	2,283,119	645,344	604,537
Operating equipment	3,229,736	2,100,100	1,907,445
Leasehold improvements	925,705	471,234	441,026
Allowances for depreciation and amortization (deduction)...	(1,067,670)	(675,535)	(643,257)
	7,885,440	3,123,792	2,837,400
DEFERRED CHARGES — NOTE C			
Unamortized organization (1970 — \$138,679; 1969 restated — \$87,228) and reorganization expenses ..	487,463	474,529	469,888
Deferred income taxes — Note D	548,000	400,000	
Unamortized deferred site development costs	110,800		
	1,146,263	874,529	469,888
	<u>\$14,472,953</u>	<u>\$11,714,124</u>	<u>\$10,549,262</u>
LIABILITIES			
CURRENT LIABILITIES			
Notes payable to banks	\$ 1,145,295	\$ 395,323	\$ 128,974
Notes payable to others	218,989	105,540	72,320
Trade accounts payable and accrued expenses	1,464,192	1,117,116	945,315
Income taxes — Note D	953,866	1,127,466	1,112,505
Current portion of long-term debt	178,597	252,934	248,998
TOTAL CURRENT LIABILITIES	3,960,939	2,998,379	2,508,112
LONG-TERM DEBT — NOTE B	1,256,837	820,666	690,671
DEFERRED INITIAL FRANCHISE FEE INCOME — NOTE A	1,043,625	744,000	
STOCKHOLDERS' EQUITY — NOTE E			
Common Stock, par value \$0.01 a share; Authorized 10,000,000 shares	25,069	24,899	23,717
Other capital	341,524	341,524	327,699
Additional paid-in capital	6,315,909	5,930,565	5,818,492
Retained earnings	1,529,188	854,091	1,180,571
Treasury stock (13,791 shares) at par value (deduction)	(138)		
	8,211,552	7,151,079	7,350,479
COMMITMENTS AND CONTINGENT LIABILITIES — NOTE F			
	<u>\$14,472,953</u>	<u>\$11,714,124</u>	<u>\$10,549,262</u>

See notes to consolidated financial statements.

**STATEMENT OF
CONSOLIDATED STOCKHOLDERS' EQUITY
PIZZA HUT, INC. AND CONSOLIDATED SUBSIDIARIES**

Years ended March 31, 1970 and March 31, 1969

	COMMON SHARES	STOCK AMOUNT	OTHER CAPITAL	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
Balance at April 1, 1968, as previously reported . . .	2,021,718	\$20,217	\$213,967	\$ 333,779	\$ 278,753	\$
Deferred franchise fee income related to change in method of accounting — Note A					(9,000)	
Acquisition of pooled companies — Note A	118,194	1,182	13,825	426,162	14,399	
Balance at April 1, 1968 as restated	2,139,912	21,399	227,792	759,941	284,152	
Net proceeds from sale of Common Stock	350,000	3,500		5,156,166		
Dividends declared by pooled companies before acquisition					(293,198)	
Prior period income taxes and other adjustments . .					(7,467)	
Capital contributions of partners and proprietors . .					10,966	
Capitalization of undistributed earnings of small business corporations			113,732		(113,732)	
Sales price of options granted to purchase 57,833 shares of Common Stock				14,458		
Net income as restated					973,370	
BALANCE AT MARCH 31, 1969 AS RESTATED	2,489,912	24,899	341,524	5,930,565	854,091	
Acquisition of purchased Companies — Note A	16,991	170		418,426		
Cancellation of stock options for 1,037 shares . . .				(259)		
Treasury Stock (13,791 shares) purchased				(32,823)	(346,292)	(138)
Adjustment for net income of pooled businesses duplicated in conformity with Pizza Hut, Inc.'s fiscal year					(5,378)	
Dividends declared by pooled companies before acquisition					(15,084)	
Net income					1,041,851	
BALANCE AT MARCH 31, 1970	<u>2,506,903</u>	<u>\$25,069</u>	<u>\$341,524</u>	<u>\$6,315,909</u>	<u>\$1,529,188</u>	<u>(\$ 138)</u>

See notes to consolidated financial statements.

**STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS**
PIZZA HUT, INC. AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 1970

SOURCE OF FUNDS

Net income for the year	\$1,041,851
Depreciation and amortization	557,907
Increase in deferred income taxes	(148,000)
TOTAL FROM OPERATIONS	1,451,758
Increase in deferred initial franchise fee income	299,625
Increase in long-term debt	436,171
Decrease in net current assets	4,434,809
TOTAL	<u>\$6,622,363</u>

APPLICATION OF FUNDS

Additions to property, plant, and equipment — net	\$5,234,772
Expenditures for deferred organization expenses and site development costs	208,517
Purchase of treasury stock	379,253
Increases in other assets:	
Notes receivable	\$331,000
Miscellaneous deposits and accounts	262,922
Patents, service marks, and franchises	98,886
Investments in affiliates and foreign subsidiaries	83,022
Other items	23,991
TOTAL	<u>\$6,622,363</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PIZZA HUT, INC. AND
CONSOLIDATED SUBSIDIARIES
MARCH 31, 1970**

NOTE A — ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of the Company and its domestic subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

During the year ended March 31, 1970, the Company acquired twenty-six businesses in exchange for 118,194 shares of Common Stock. These acquisitions have been treated for accounting purposes as poolings of interest, and the accounts of the pooled businesses have been included in the financial statements for 1970 and 1969 restated.

The operations of other businesses acquired in transactions accounted for as purchases have been included since date of acquisition. The cost in excess of net assets acquired in these transactions were not amortized since in the opinion of management there has been no diminution in value.

As of March 31, 1970, the Company retroactively adopted a revision in the method of accounting for initial franchise fees. Upon the sale of a franchise, the Company records the amount received or receivable as an asset and the fee as deferred franchise fee income which is included in income when the retail unit has been opened by the franchisee. This accounting change had the effect of decreasing previously reported net income for the year ended March 31, 1969, by approximately \$350,000 (\$.16 a share).

NOTE B — LONG-TERM DEBT

At March 31, 1970, the Company and its consolidated subsidiaries were indebted to banks and others as follows:

Mortgage notes due in monthly installments aggregating \$12,054, including interest at rates of 6% to 8½%, maturing at various dates to 1989. Land and buildings with a carrying value of \$1,553,880 have been mortgaged as collateral\$1,015,247

6% real estate mortgage notes due in 1971. Land with a carrying value of \$90,439 has been mortgaged as collateral 70,000

Equipment notes requiring monthly payments of \$2,135 to 1974, including interest at rates of 5½% to 7%. Equipment with a carrying value of \$83,148 has been mortgaged as collateral 48,550

8½% note due in monthly installments beginning September 1, 1970, of increasing amounts ranging from \$4,000 to \$12,000 plus interest through January 1, 1973. Inventory (\$562,262), customer and affiliate accounts receivable (\$1,246,347), and contract rights have been pledged as collateral. 225,000

Other unsecured notes 76,637
1,435,434
Less amounts due within one year 178,597
\$1,256,837

The aggregate maturities for each of the five years ending March 31, 1975, are as follows: 1971 — \$178,597; 1972 — \$282,474; 1973 — \$233,167; 1974 — \$101,852; 1975 — \$102,043.

NOTE C — DEPRECIATION AND AMORTIZATION POLICY

Provision for depreciation of buildings and equipment was made on a basis considered adequate to amortize the cost of the depreciable assets over their estimated lives by the straight-line and accelerated methods. Leasehold improvements were amortized by the straight-line method. Such amounts for the year ended March 31, 1970, totaled \$473,124 and

were computed generally on the basis of the following range of lives:

Buildings and improvements	20 to 30 years
Operating equipment	5 to 10 years
Leasehold improvements	Term of lease

Repairs, maintenance, and renewals were charged to income. Expenditures for improvements have been capitalized. The policy of the Company and subsidiaries is to relieve property accounts and related allowances for properties retired, or otherwise disposed of, at amounts included therein for such properties, and any gain or loss resulting therefrom has been included in the Statement of Consolidated Income.

The Company is amortizing organization expenses and deferred site development costs over a five-year period and reorganization expenses over a fifteen-year period, both on a straight-line basis. Such amortization during the year ended March 31, 1970, totaled \$84,783.

NOTE D — INCOME TAXES

The provision for federal income taxes was made on the basis of filing separate returns for each subsidiary. It is management's intention to continue to file its federal income tax returns on this basis.

Deferred income taxes arise primarily from the deferral of initial franchise fee income as described in Note A.

NOTE E — CAPITAL STOCK

During the year ended March 31, 1970, the Company adopted a Qualified Stock Option Plan for officers and employees. Options to purchase 35,170 shares of Common Stock at \$9.38 a share, the market value at date of grant, were issued during the year and were outstanding at March 31, 1970. None of these options become exercisable until December 26, 1970; thereafter, 25% become exercisable each year. Under provisions of the Plan, 64,830 shares of authorized Common Stock were reserved for the granting of additional options.

At March 31, 1970, options were also outstanding to purchase 56,796 shares of Common Stock at \$16.00 a share. These options are currently exercisable and will expire January 31, 1971.

During the year ended March 31, 1970 the Company increased its authorized Capital Stock to include 1,000,000 shares of Preference Stock. Dividend rate, voting rights, convertibility and other preferences, for each series issued, will be fixed by resolution of the Board of Directors when issued. None of the Preference Stock has been issued.

NOTE F — COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 1970, the Company and subsidiaries were lessees under long-term leases for buildings and equipment expiring through the year 2008. These leases call for minimum annual rental (exclusive of real estate taxes, maintenance, and insurance payments required by some of the leases) of \$2,575,114. The aggregate rental commitment under these leases was \$37,054,542. Certain of the leases provide for additional annual rent based on gross sales of the operating Hut.

The Company's office building, which at March 31, 1970, was under construction, was subsequently completed and sold in a sale and leaseback transaction calling for annual rentals of \$110,500 and an aggregate rental commitment of \$2,210,000.

At March 31, 1970, the Company was guarantor of the lease commitments of certain franchisees. The minimum annual and aggregate rentals of such leases were \$275,621 and \$4,919,035 respectively. The Company has guaranteed certain debt limits of franchisees and others in the approximate amount of \$880,000. As of March 31, 1970, \$515,000 had been advanced on these guaranteed debt obligations.

The Company is a party to pending or threatened lawsuits arising from the normal conduct of its business. While it is not possible to forecast the results of these matters, management believes the outcome will not have a material adverse effect on the Company's financial position.

ACCOUNTANTS' REPORT

ERNST & ERNST

500 FARMERS & BANKERS BUILDING

WICHITA, KANSAS 67202

Stockholders and Board of Directors

Pizza Hut, Inc.

Wichita, Kansas

We have examined the consolidated financial statements of Pizza Hut, Inc. and subsidiaries for the year ended March 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, stockholders' equity, and source and application of funds present fairly the consolidated financial position of Pizza Hut, Inc. and subsidiaries at March 31, 1970, and the consolidated results of their operations, changes in stockholders' equity, and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for initial franchise fee income as described in Note A, which we approve.

Ernst & Ernst

Wichita, Kansas

June 29, 1970

DIRECTORS

Daniel M. Carney,
Chairman of the Board

Frank L. Carney,
Director and President

Robert K. Chisholm,
Director

Martin Hart,
Director
(Executive Vice President,
Hardee's Food Systems)

Robert A. Page,
Director
(Chairman of the Board,
Garvey, Inc.)

PRINCIPAL OFFICERS

Frank L. Carney,
President

Robert E. Cressler,
Vice President - Operations

Daniel J. Taylor,
Treasurer

Joseph P. Flynn,
Secretary and Counsel

REGIONAL MANAGERS

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Western Region

Marvin E. Day
Central Region

James E. O'Donnell
Southwest Region

Jack L. Shelton
East-Southeastern Region

Theodore A. Swan
Midwest Region

EXECUTIVE PERSONNEL

Jim B. Burton,
Budgeting and Forecasting

Eugene H. Schroeder,
Comptroller

James P. Schwartz,
Consultant to the Chairman

Kenneth R. Miller,
Franchising

Joseph P. Flynn,
General Counsel

Gerald T. Aaron,
Assistant Counsel

Robert J. Navrat,
Management Information Services

Darrel L. Rolph,
Operations - Pizza Hut

Jim L. Anderson,
Operations - Next Door

James J. Aboud,
Operations - Taco Kid, Flaming Steer

James B. McNerney,
Operations Assistant - Taco Kid

Lois Bird,
Personnel and Office Services

John H. Songer,
Real Estate Development

Byron A. Wiley,
Assistant, Real Estate

M. Hal Taylor, PhD,
Research and Development

Christopher F. Hotze,
Training

INTERNATIONAL SUBSIDIARIES

Pizza Hut Australia Pty. Ltd.

Glenn Dawson, Development
James McPeak, Operations

Pizza Hutte, GmbH. (West Germany)

Frank Gordon, Development
Stanley T. Ostrowski, Operations

SUPPLY SUBSIDIARY

Franchise Services, Inc.

Farris Farha, President
Amil J. Ablah, Vice President - Equipment
Dale E. Wiggins, Vice President
Gary Davis, Operations
Larry Dedrick, Accounting

INTERNATIONAL PIZZA HUT FRANCHISE HOLDERS ASSOCIATION

Daniel Hesse, Executive Secretary

Directors:

Byron Strange, Seattle, Washington
Alan Hakanson, Allentown, Pennsylvania
Jack Richmond, San Antonio, Texas
Johnnie Johnson, Waterloo, Iowa
Robert McNeely, Columbia, South Carolina
Norman Blankinship, Amarillo, Texas
Kenneth R. Miller, PHI Representative

